MEMORANDUM

DATE: Wednesday, October 01, 2014

TO: Richard Ellis, State Treasurer
David Damschen, Deputy State Treasurer

FROM: Brian Baker
Zions Bank Public Finance

RE: Good Foundations Academy

Good Foundations Academy ("GFA") is a K-6 charter school located in Riverdale that began operations for the 2011-2012 school year. Total enrollment this past school year was 468 students. The school is looking to borrow approximately $6,050,000 million in order to acquire a 45,000 square foot facility it is currently leasing, and to add an additional 4,000 square feet for a band room and upgraded library. The bond issue will also fund a debt service reserve fund and pay costs of issuance. The bonds are likely to be purchased by the Tax Free Fund for Utah, with a 3-year par call provision designed to allow the School to refinance into bonds backed by the State Credit Enhancement Program in the future, should they qualify.

I have reviewed the application from Good Foundations Academy, as well as additional information that I requested and that the charter school has provided to me. All questions have been answered to my satisfaction. My analysis results in the following findings:

1. (Exhibit D Schedule 1) From their website: "The purpose of Good Foundations Academy is to provide excellence and fairness in education through a common educational foundation. Our goal is to provide each student with knowledge, skills, and character through strong parent-teacher-student partnerships." GFA uses Core Knowledge curriculum and is on track to be certified as an "Official Core Knowledge School."
2. (Application Part II Question 6) The bonds are to be secured by an assignment and secured interest in the revenue pledge agreement and trust accounts, and a security interest and pledge of the deed of trust in the land, building, and personal property that are being purchased or constructed with proceeds. The bonds will also be secured by a debt service reserve fund.
3. (Exhibit C (g)) GFA has a management agreement with Red Apple. Red Apple is paid $66,000 each year for their services, which equated to approximately $141 per student (unless the costs have been increased since the original contract from 2010). This fee seems very reasonable for the services provided, particularly compared with other service providers.

4. (Exhibit D Schedule 1) The school has provided a breakdown of waitlist by grade level. The wait list is adequate, with 301 names currently on the list (versus total enrollment of 468). Grade level waiting lists are relatively strong for all grades except 6^{th}, which is reasonable given that this is the terminal year of instruction for GFA.
5. (Preliminary Financial Forecast) Based on projections, the school should not have cash flow issues, and should be in a reasonably strong financial position. For projections, revenues are increased 1% per year, while general expenses grow 2% and utilities and benefit expenses grow 5% annually. The School is predicting growth from 468 last school year to 524 over the next four years, which seems feasible. If that growth does not occur, it appears the GFA will still have sufficient financial resources to service the debt.
6. Debt is forecasted at the following terms: Approximately 5.875% TIC rate, 30-year maturity. The School is not seeking a rating on the bonds. We have been in touch with both the financial advisor and underwriter, and these terms seem reasonable for the current market. If the School sells bonds to the Tax Free Fund for Utah, they anticipate receiving a 3-year par call. That feature is very valuable by itself.
7. The projected debt coverage ratio is between 1.50X and 2.05X for the next five years. As long as GFA can maintain or increase student enrollment, coverage should not be a problem. The financial metrics indicate the School would be OK without the anticipated addition of approximately 60 students over the next 4 years (which represents total growth of 13%).
8. (Documentation of School Financial Status) The projected overall debt service burden rate for the school is approximately 16%. We would expect this ratio to fall in the future as the WPU is increased or as the School adds students. This level is very reasonable for a non-rated bond issue. (rating agencies and the market usually like to see a debt service burden ratio of 15% or less for an investment grade transaction)
9. (Bond issue information, 9 (a)) The cash position of the school appears strong at approximately 74 days cash on hand. Cash position is expected to remain strong going forward.
10. There is a small amount of construction risk, which is a negative factor. They are acquiring the existing school, and as a result can continue operations regardless of any unforeseen complications with the 4,000 square foot addition.
11. The budget projections include enrollment growth from 468 this year to 524 for the 2018-2019 school year. This represents 13% growth and does not seem to be a significant obstacle, particularly given the School's adequate wait list and the fact that new revenues are not needed to service the expected debt burden.
12. The professional costs of this transaction are lower than for other non-rated charter school deals we have seen. Wedbush Securities will receive an underwriter spread of $3.00 per $1,000, which is low by underwriter standards. However, given that the bonds are to be placed directly with Tax Free Fund for Utah, Wedbush is doing little more than writing a ticket so that the securities can be more marketable.

The GFA financial structure appears more than adequate to service their debt. The three year call feature will give them the ability to refinance when they qualify for the State Charter School Credit Enhancement Program in the future. If you have any questions, I would be happy to answer them.